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What Peace Can Mean to American Farmers

Maintenance of Full Employment

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FOREWORD

This publication is one of a series under the general title "What Peace Can Mean To American Farmers." It is a sequel to an earlier one in the series, called "Post-War Agriculture and Employment," which contains an analysis of the possible significance to agriculture of various levels of nonagricultural employment. The general conclusion drawn from that analysis was that under full employment, post-war adjustments required in agriculture would be manageable, but that the difficulties would multiply as the number of unemployed is increased.

How to maintain a full-employment economy, therefore, is a matter of great interest to farmers, even though most of the action required lies outside areas usually covered by agricultural programs as such. Even though the present analysis as submitted to me deals with numerous problems that are not strictly within the agricultural field, the action taken by the American people in meeting these problems will have such a profound effect on all agriculture that I am having this study printed so that agricultural agencies dealing with post-war problems, and farm people generally, may have a better understanding of the more important elements of the whole problem. This publication does not necessarily present Department policy but is offered primarily as an analysis for purposes of discussion and further study.

Many members of the Department staff have made important contributions to this work. It was done under the leadership of James G. Maddox and Bushrod W. Allin, with special assistance from Willard W. Cochrane, J. P. Cavin, Mordecai Ezekiel, and Tyler F. Haygood.

Claude R. Wickard

Secretary of Agriculture

Washington, D. C. Issued July 1945

What Peace Can Mean to American Farmers

MAINTENANCE OF FULL EMPLOYMENT

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INTRODUCTION

What peace can mean to American farmers depends more upon the level of business activity and nonfarm employment that can be maintained after the war than upon anything else. Although all the problems of post-war agriculture would not be solved by a full-employment economy, there can be little question that the country generally would be better off if productive jobs are available for all who are able and willing to work, than if millions of workers are walking the streets looking for jobs, or are forced "back to the land" in an attempt to dig their living out of the soil. Farmers can be assured that an economy characterized by high levels of employment, as contrasted with high levels of unemployment, would bring them (1) substantially larger market outlets for most farm products, (2) greater opportunities for some of their sons and daughters to find nonfarm jobs, and (3) a better chance for themselves to shift to more productive farms or out of agriculture entirely if they want to do so.

The significance of full employment to agriculture is summarized in table 1, reproduced from the first report in this series, Miscellaneous Publication No. 562, Post-War Agriculture and Employment. On the basis of stated assumptions, the estimates presented in this table are designed to show the economic conditions likely to be associated with various degrees of employment and unemployment in the post-war period, and to indicate the possible effect of these conditions upon the price and income position of agriculture. They are not forecasts for 1950, but are intended to represent conditions well beyond the war and reconversion periods, assuming that past statistical relationships, adjusted for evident trends among certain items, would continue into the post-war period.

TABLE 1.—*Employment, prices, and income, United States, average 1935-39, 1943, and estimates for 1950 under assumed conditions*

Item	Unit or base	Average 1935–39	1943	[1] 1950		
				Full employment	Intermediate employment	Serious depression
Total labor force	Million	53.8	62.6	60.0	60.0	60.0
Armed forces	Million	.3	9.1	2.0	2.0	2.0
Total unemployment	Million	10.2	1.1	2.0	7.0	17.0
Total civilian employment.	Million	43.3	52.4	56.0	51.0	41.0
Total agricultural employment.	Million	9.3	8.3	8.0	8.5	9.0
Total nonagricultural employment.	Million	34.0	44.1	48.0	42.5	32.0
Gross national product.	Billion dols.	81.9	187.8	188.0	130.0	76.5
National income	Billion dols.	65.4	149.4	150.0	105.0	57.5
Wholesale prices, all commodities, index.	1926	81.0	103.0	103.0	87.0	66.0
Cash income from farm marketings.	Billion dols.	8.0	19.2	17.0	12.5	6.5
Net income of farm operators.	Billion dols.	4.2	11.4	9.3	6.5	3.0
Prices received by farmers, index.	August 1909-July 1914	107.0	193.0	165.0	125.0	75.0
Prices paid, interest, and taxes, index.	August 1909 July 1914	128.0	162.0	165.0	140.0	120.0
Parity ratio (prices received vs. prices paid):	August 1909 July 1914	64.0	119.0	100.0	89.0	62.0
Food consumption, per capita, index.	1935–39	100.0	106.0	118.0	110.0	100.0
Agricultural production, index.	1935–39	100.0	129.0	[2] 135.0	[2] 125.0	[2] 115.0

[1] The number of employed or unemployed is not the only factor that distinguishes any one set of conditions from the other 2 assumed for 1950. The general price level and productivity per worker change also. The full employment estimates assume a minimum frictional unemployment of 2 million persons, continuation of trends in productivity per worker, and a general price level equivalent to that of 1943, with prices received by farmers adjusted to their usual relation with the general price level during 1921–41. The intermediate situation assumes per capita income and prices generally at about the level of 1941. Serious depression assumes an income level somewhat above 1932, but below 1935–39 and prices generally about equal to the average of 1932 and 1933, but since both the labor force and productivity per worker are increasing, unemployment under this situation would be even greater than in 1932 and 1933. Population in 1950 is estimated at 144,000,000. All three estimates assume 2 million workers in the armed forces.

[2] Production consumers would buy (and farm families would use) at the prices assumed.

The differences between the conditions likely to be associated with various levels of employment include more than changes in the number of workers employed. They include also changes in the utilization of capital and other resources, as well as changes in productivity per worker and in the general price level. Whether and to what extent a given change in the number of workers employed would set in motion all of these other changes depends in part upon who employs them, how they are employed, and under what conditions. The full-employment estimates are based on the assumption that most of the employment would be private employment, and this report is concerned with how to maintain full employment that is largely private employment.

SHIFTING PRODUCTION FROM WAR TO PEACE

More or less time will be required after the fighting stops to complete the reconversion of the economy to a peacetime basis. The major domestic problems of this transition period fall into six

categories: (1) Cancellation of Government war contracts, and reconversion and expansion of plant capacity for civilian goods, (2) disposal of surplus military supplies in such a manner that the markets for new civilian goods will not be flooded, (3) transfer of several million civilian workers and military personnel to be demobilized from war work from one area of the country to another to facilitate reemployment at new jobs, (4) maintenance of incomes of demobilized veterans and war workers while they are searching for new jobs, (5) proper elimination of wartime controls, such as rationing, price ceilings, allocation of materials, and restrictive manpower regulations, and (6) maintenance of farm prices and the purchasing power of farmers while agricultural production is shifted from wartime to peacetime goals.

Most of these problems are currently receiving the attention of the legislative and executive branches of the Federal Government and are topics of public discussion among millions of citizens. Some of them have already been dealt with, in part at least, by both legislative and executive actions. For each general type of problem, guiding principles and procedure either have been or are being developed. Since this is true, little can be gained by outlining in this report the consequences of alternative policies. Two general points, however, may well be recognized: (1) The importance of having as large a production of civilian goods as possible just as quickly as the military situation permits and (2) the probability of some unemployment during the transition period, even though the very best of reconversion policies are followed.

A minimum of delay between the cancellation of war contracts and the manufacture of civilian goods will result in a minimum of unemployment. If attempts are made to protect the market for firms engaged in war production by holding down the civilian production of competing firms whose war contracts have expired, the result will inevitably be a decrease in total production and a rise in unemployment.[1]

Because of the time required to re-tool and re-equip plants changing from the production of war goods to the production of civilian goods, some unemployment during the transition is almost inevitable. Some plants will be permanently closed down and workers will be faced with the task of finding new jobs, others will probably close for a few weeks or months before they can start producing civilian goods again after their war contracts expire or are terminated, and still others will have to be built.

In shifting from wartime to peacetime goals, agriculture will have to make some adjustments in production,—particularly in the case

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[1] The Special Senate Committee Investigating the National Defense Program has suggested the following principles:

The committee believes that we should have confidence in the operation of the free democracy for which the war is being fought. The committee therefore believes that a manufacturer should be allowed to make any article he desires to make and thinks he has the facilities to make, providing:

1. Basic commodities such as steel and aluminum that are required for manufacture are available in the shapes and forms required by him, and are not required for the manufacture of war or essential civilian items;
2. The proposed manufacturing operations are not undertaken in an area which the War Manpower Commission has classified as having an acute manpower shortage; and
3. The manufacturer has not been offered a contract or subcontract for a war item, or notified by a war procurement agency that a contract probably will be offered him in the immediate future.—Third Annual Report of the Special Committee Investigating the National Defense Program, March 4, 1944.

of those commodities such as peanuts and flax, the production of which has been greatly expanded to meet special war needs. As expressed in the Steagall Amendment, it is already a part of national policy to maintain farm purchasing power during the transition by supporting farm prices at 90 percent of parity for 2 years after the war, but programs to implement that policy may be required.

The manner in which these problems are handled can affect greatly the prospects for dealing successfully with the long-run issues involved in later achieving and maintaining full employment. Assuming, however, that the turbulent seas of the transition period can be navigated with reasonable success, what of the years that lie beyond? The widespread discussion of the importance of maintaining full employment after the war is evidence itself of the fear that unemployment may again become a major problem not only for individual citizens and business concerns but also for the Government itself. Much could be written about what individuals and business enterprise might do to maintain full employment after the war, but this publication is addressed primarily to the problem of what the Government can and should do to help private enterprise do the job.

THE PROBLEM

If an increasing labor force after the war is to remain fully employed at jobs being made ever more efficient by the march of science and technology, the purchasing power of that labor force must be constantly expanded to enable it to buy and consume its expanding output of goods and services. So far as the Government's relation to this process is concerned, there are at least two alternatives in domestic policy short of a completely regimented economy. If full employment is to be maintained, the Government can either exert its influence to create the kind of "economic climate" or environment in which private spending will maintain sufficient purchasing power, or, failing in that, supplement private spending with public spending.

When individuals, business firms, or governments spend money for the goods and services produced by labor, they contribute to the maintenance of employment. This is true of the man who buys a haircut or a new suit of clothes; of the housewife who buys a dozen apples or a vacuum sweeper; of the family who pays for a railroad ticket, a hotel room, or restaurant meals for a vacation; of the business firm which buys the material and hires the labor to manufacture furniture, radios, and farm machinery, or to erect a new factory; of a local school district which buys a new school bus or adds more books to the library; of the city government which installs a new sewage-disposal plant or builds a city auditorium; of the Federal Government when it buys a battleship, builds a new post office building, or constructs a giant dam. All of these types of expenditures, and many thousands of others like them, create jobs and bring about a demand for labor.

The total production of all such finished goods and services is called the gross national product. In the prosperous year of 1929, the total value of the gross national product was 99.4 billion dollars. Of this total amount, more than 70 percent was sold to individual consumers, about 18 percent was sold to business firms largely in the form of plant and equipment, and the remaining 11 percent was purchased by Federal, State, and local Governments (table 2). By 1933, in

the depth of the depression, the total value of the gross national product had fallen to less than 55 billion dollars, when expenditures of consumers, or private individuals accounted for 77 percent of the total, those of business for 6 percent, and those of Government for about 17 percent. In 1943, with the war in full swing, the total value of the gross national product had risen to 187.8 billion dollars. Only 48.4 percent of this amount was produced to meet the demand of individual consumers, only 1.1 percent was for business, and the remaining 50.5 percent was for Government, mostly the Federal Government. Production for consumers and business rose from 88 billions in 1929 to 93 billions in 1943; production for governments, from 11 billions to 95 billions.

TABLE 2.—*Gross national product. distributed according to source of demand, United States, selected years* [1]

Source of demand	1929		1933		1937		1940		1943	
	Billion dollars	*Per-cent*	*Billion dollars*	*Per-cent*	*Billion dollars*	*Per-cent*	*Billion dollars*	*Per-cent*	*Billion dollars*	*Per-cent*
Individuals [2]	70.8	71.2	42.4	77.4	62.5	71.2	65.7	67.6	90.9	48.4
Business [3]	17.6	17.7	3.3	6.0	11.6	13.2	14.8	15.2	2.1	1.1
Government [4]	11.0	11.1	9.1	16.6	13.6	15.6	16.7	17.2	94.8	50.5
All sources (total product)	99.4	100.0	54.8	100.0	87.7	100.0	97.1	100.0	187.8	100.0

[1] Based on estimates published by the Department of Commerce in Survey of Current Business.
[2] Includes services as well as durable and nondurable goods.
[3] Includes machinery and equipment, private construction (including residential), net change in business inventories, net exports, and domestic output of monetary gold and silver.
[4] Includes commodities and services, and public construction of local, State, and Federal Governments, and war outlays of the Federal Government.

In the astounding difference between the situation in 1929, when Government expenditures accounted for only 11 percent of the total national product, and the situation in 1943, when such expenditures supported over half of the entire economy—in this difference is to be found some measure of the post-war employment problem. Naturally Government expenditures will not continue at current high levels after the war is won. If full employment supported mainly by private spending is to be maintained after the war, however, the great question that emerges is: What can and should Government do to make sure that private individuals and business firms will increase their expenditures so as to offset in large measure the decline in Government expenditures expected to result from the reconversion of the economy from a wartime to a peacetime basis? The backlog of consumer demand, supported by accumulated wartime savings, gives some assurance that such expenditures will increase for a time at least during the post-war years, but it is still a question whether they will increase sufficiently to sustain a high level of economic activity in the face of a normal peacetime rate of Government spending.

To maintain full employment is to eliminate alternate periods of "boom and bust," or largely to eliminate the wide swings of the business cycle—the greatest of which ever experienced in peacetime was the collapse from 1929 to 1933. Lesser ups and downs have been experienced before, and are regarded by some as a necessary evil and an essential characteristic of a private-enterprise economy. Certainly the country never had full employment at any time during the inter-

war period—not even in 1929. This suggests, perhaps, that if full employment is to be realized in peacetime after this war, Government action to create the kind of environment needed to encourage a stable and expanding level of private expenditures will include at least some modification of the past practices which led to business cycles, as well as some change in the relation of Government to private enterprise.

HELPING PRIVATE ENTERPRISE MAINTAIN FULL EMPLOYMENT

Federal, State, and local governments will all want to follow policies in the post-war years which will provide the greatest possible inducement to private employment. There will be much opportunity for them to contribute toward this end in such fields as (1) maintenance of farm purchasing power, (2) revision of tax laws, (3) encouragement of competition, (4) stimulation of private investment, (5) revision of the social security system, and (6) improvement in the timing and coordination of public expenditures.

Maintenance of Farm Purchasing Power

Agricultural and other raw-material prices have a tendency to fluctuate much more widely than the prices of manufactured goods. This relative instability of agricultural prices has important repercussions on total employment because agriculture is an important segment of the total economy. Though full employment and full purchasing power for nonagricultural workers is an essential condition for a prosperous agriculture, full purchasing power for farmers also contributes to the maintenance of full nonfarm employment by maintaining a strong farmer demand for the products of nonfarm labor.

One significant way in which Government might aid private enterprise in the maintenance of full employment is to help farmers find market outlets for full production. One way this can be done is through the expansion of such measures as food-stamp plans and school-lunch programs. Even under conditions of full employment, large numbers of people in the lower income groups would likely be unable to purchase the kinds and quantities of food they need for good nutrition and health. By maintaining outlets for full farm production at fair prices farm incomes could be maintained at higher levels than by restricting farm production in order to maintain the same prices. What is more, the farm market for the products of nonfarm employment would be greater, and malnourished people would be better fed.

Government can do much to stabilize and expand farm purchasing power in the years beyond the transition by establishing appropriate "floors" for farm income, and by long-range programs designed to raise the level of living of farm people generally. It is not the purpose here to describe these possibilities, but only to suggest that the type of Government action in this field that will contribute most to a full-employment economy will depend in part upon the action taken on the nonagricultural front.

Action to maintain farm purchasing power will be most effective if it is part of a broader program to maintain balance between the

incomes of all major groups—agriculture, business, and labor. It is with this general goal in mind that possibilities for action in the remaining five fields are discussed. The critical aspect of this problem of "balance" is that of maintaining the purchasing power of all low-income groups, both rural and urban.

Revision of Tax Laws

Traditionally, the Federal Government has levied taxes primarily for the same reason as State and local governments—to raise revenue for meeting the costs of government. But the raising of revenue and the spending of money by the Federal Government can have a variety of economic effects, depending upon the way in which the taxes are levied and the purposes for which the revenue is spent. The decision as to what are the best types of taxes, therefore, should never be based upon any one consideration alone. Taxes should be selected with due regard for the collateral economic effects they may have, as well as for the amount of revenue they will produce, and the equity with which their burden falls upon different types of taxpayers. For example, will they have greater or less tendency to restrict production and employment?

Assuming that one of the purposes of national policy is the maintenance of full employment, mainly by private enterprise, tax policy should be guided by two sets of considerations: (1) The volume of revenue collected should be geared to the level of private activity in such a way that taxes will be relatively high when the national income is high and has prospects of rising, and relatively low when the national income is low or falling; (2) the types of taxes levied should remove impediments to, or penalties on, private expenditures for current consumption and new investment when the national income is likely to decline; and conversely, they should restrict private expenditures when the economy has reached full productive capacity and is threatened with inflation.

The first of these two sets of considerations is closely related to the whole question of the proper timing of taxation, borrowing, and spending by the Federal Government. If, for example, private expenditures after the war are to expand sufficiently to take the place of war expenditures now being made by the Federal Government (and unlikely to continue after the war) it is obvious that the wartime tax policy which had as one of its objectives the discouragement of inflated prices for civilian goods would need to be replaced by one aimed at stimulating greater production of such goods. On this point there seems to be little disagreement. The problem arises in connection with the second set of considerations—deciding what types of taxes should be eliminated or reduced.

To stimulate current consumption and new investment, first attention should be given to removing or reducing the tax impediments to these two types of private expenditure. The principal types of taxes which represent fairly direct levies on consumption are sales, motor-vehicle, and pay-roll taxes—as well as customs duties and certain miscellaneous licenses and excise taxes. It is impossible to segregate accurately direct taxes on consumption from other related types but, on the basis of available data, it is probable that they represented almost one-fourth of all Federal revenue in 1943, and well over two-

thirds of all State revenue. In 1941, when receipts from the income tax were much less than in 1943, almost half of the Federal revenue was from taxes on consumption.

The principal taxes which have a tendency to restrict new investment are the so-called business taxes. The two main types on corporations are the excess-profits tax and the corporate income tax. Both are levied by the Federal Government, although many States also have corporate income taxes.

The excess-profits tax was brought into existence as a war measure, with the primary aim of preventing abnormal profits as a result of war production. With numerous qualifications respecting refunds, limitations, and exemptions on the amount of net income that may be taken through a combination of Federal taxes on corporations, the Federal excess-profits tax approximates a rate of 90 percent on the profits of corporations in excess of their profits during the pre-war base period 1936-39. This tax—like price control, rationing, and allocation of industrial materials—is an important and necessary wartime measure. Moreover, it is a very important source of Federal revenue and hence a significant means of financing the war.

But once the war is over and business has gone through most of the transition from war to peace production, an excess-profits tax may act as a serious deterrent to new investments. Investors are not likely to put their money into venturesome and uncertain new enterprises, in preference to Government bonds or other similarly secure fields, unless there is the incentive of the possibility of substantial profits. Attempts to limit profits to some pre-war base period will almost certainly limit the amount of new investments. Yet the maintenance of full employment demands a continuous flow of funds into new investment channels. The country can hardly afford to run the risk of discouraging private investment and encouraging business extravagance and inefficiency by levying an excess-profits tax in the post-war period. This type of tax was used during World War I, but was repealed after that war.

But reductions in business taxes will not automatically make more investment or more employment—those must still be created by the actions of investors and employers. During the war period, corporations have generally widened their profit margins by more than the amount of the excess-profits taxes. As a result, profits before taxes are now far above pre-war levels, both in percent of sales and in percent of assets. In industries where competition is not keen and where post-war demands will be large, there will be a great temptation for businessmen to maintain these unusually high profit rates, even after wartime profit taxes are reduced. If they should do so, that would keep large amounts of money out of the markets for goods, and increase the difficulty of maintaining national markets for all that can be produced. If, on the other hand, they should follow a policy of low prices, high wages, and low profits per unit of sales, they would help stimulate sales, maintain employment, provide demand for the production from increased facilities, and thereby stimulate investment. Steps to reduce business taxes will thus help to maintain employment only if they are accompanied by wise and far-seeing business policies with respect to prices, wages, and profits.

The excess-profits tax represents an extreme form of business taxes, just as a general sales tax represents an extreme form of taxes on con-

sumption. Between these two extremes are to be found many other taxes, but the most important revenue producers are the corporate income tax, the individual income tax, and the general-property tax. In this report, recommendations have been limited to sales taxes and excess-profits taxes because they best illustrate the basic principles that would be involved in an attempt to construct a tax system in harmony with the full-employment objective. It is not the purpose here to make specific recommendations concerning a host of complicated and related issues arising in connection with other taxes. These issues include questions pertaining to basic rates and their progression, whether the earnings of corporations should be taxed both as corporate income and again as individual income when paid out as dividends, whether individual income-tax exemptions should be high or low, and whether improvements should be taxed as heavily as land. It is sufficient to point out the need for a comprehensive revision of the tax structure to the end that it may provide the greatest possible incentive to private employment and be consistent with the need both for equity and for adequate revenue.

Once the fighting ends, the Nation will need to convert war industries (largely durable-goods industries) to civilian production as rapidly as possible, and to expand its capacity to produce peacetime nondurable goods. Durable civilian goods may be very short of demands for a considerable period, while production of nondurable goods can be expanded more rapidly. Tax policies during this reconversion period should encourage expansion of investment and production in peacetime products and speedy reconversion in the heavy-goods plants. To check the danger of inflation, however, price controls and taxes on consumption might be maintained for a time, especially on products such as automobiles, radios, and household equipment, where supplies will be shortest. But if after this period is past, mass unemployment and deflation threaten, taxes should be reduced—especially consumption levies and those most likely to restrict investment. The main reliance for tax revenue should be upon such taxes as the individual income tax and the estate tax.

Encouragement of Competition

Though certain forms of taxes may serve unduly to restrict production and trade, the only ones levied for that purpose are some of the tariffs and some of the State taxes such as those on oleomargarine. But the record is full of both public and private actions aimed consciously at accomplishing this purpose. Various forms of collective action by corporations, trade associations, labor unions, farm organizations, and marketing groups have sought and achieved some restrictions of competition that have had the effect of limiting production and employment opportunities. And even those practices which might not have resulted in idle men and other resources have tended to prevent a higher level of production by forcing the continued use of labor and capital in relatively less productive fields than would be otherwise available. Some of these restrictions have been put into effect with the aid of Government; others have been accomplished without Government aid and in spite of active Government opposition.

Throughout most of the history of the United States, laws have been passed to "bust trusts," and various public policies, court deci-

sions, and administrative regulations have aimed at the maintenance of competition. Nevertheless, the existing industrial organization is characterized by a relatively high degree of price and wage inflexibilities, and numerous restrictive practices. The real problem for the future, therefore, is how the American people, through acts of their Government, can progressively select out those restrictions which tend to reduce employment and production, and adopt measures and procedures for eliminating them. For instance, it long has been considered a stimulant to employment for governments to grant patents to inventors as a means of encouraging more inventions and more production than otherwise might be expected. But the question still arises as to whether the terms of these patents restrict production. Changes may need to be made in the provisions for issuing future patents, including periods of time to which they apply and conditions for extension or renewal.

Patents fall into two general categories: Those involving basic changes in design, which generally require considerable amounts of capital and a period of years to develop and exploit, and those involving minor variations in design which can be exploited with small amounts of capital in a relatively short time—especially by concerns already in production. The time period allowed for patents in the second category should be much less than for those in the first, and should be drastically reduced for both types. For basic patents or for basic changes in design, the inventor might be given the right to renewal for a moderate period, on the condition that the patent is properly used. The Patent Office might well be given the power to revoke a patent or compel the licensing of it whenever its use is being suppressed by the owner or is being made the basis for restricting production and employment.

A positive program to equalize the competitive struggle between large and small business could be an important supplement to a revision of the patent laws as a means of expanding production and employment. Small business often finds it impossible to finance the expensive research programs necessary for its survival and expansion in competition with big business. A comprehensive Government program of industrial research, comparable to that of agricultural experiment stations, supplemented with technical advice and financial assistance to small business firms, would be both an aid to expanding new investment in industry and a significant step in preserving the competitive system. It is especially important that the results of research by Government be placed in use in such manner that they contribute as much as possible to new and expanding employment, and not be allowed to strengthen any monopoly position of private firms.

A vigorous enforcement of the Sherman Anti-Trust Act will continue to be influential in encouraging competition. This act is aimed primarily at preventing the development of combinations in restraint of interstate commerce. It can be one significant instrument in keeping the door of opportunity open for new business ventures, and, hence, for new investment and employment opportunities.

Tariff rates need to be revised with a view to eliminating special privileges which aid in restricting industrial production, consumption, and employment. International cooperative action to lower

tariff barriers throughout the world and to prevent international monopoly through private cartels are problems with broader implications and require special treatment. But to the extent that production, employment, and consumption at home could be expanded by the independent action of this country in lowering tariff rates, such action would not only be conducive to the maintenance of employment at home but also to the promotion of international trade, cooperation, and peace.

To utilize the power of Government adequately to encourage competition of the right kind, is indirectly to aid the consumer in getting the most for his money, as well as to induce an expansion in private investment and employment. Whatever aids the consumer in getting more for his money increases his purchasing power, which is his power to buy more goods and services. Possibilities for Government action in this direction, in addition to some of the types already discussed, include such things as the encouragement of uniform grade labeling and higher standards in advertising, and fuller enforcement of the pure food and drug laws. All of these things tend to limit the opportunity for anyone to exploit consumers, or to diminish the power of consumers to buy the goods and services a fully employed labor force can produce.

Output restriction by labor has long been practiced as a means for bargaining with employers. From the viewpoint of labor, it has been defended on the ground that it was necessary to insure labor a fair wage. One means for breaking this deadlock in the interest of expanding production and employment would be to encourage the extension of union-management agreements that eliminate restrictive labor practices in exchange for better incomes and working conditions for employees. If workers are assured that their greater efficiency will not result in the loss of their jobs, it will be easier to break down restrictive labor practices.

Many other possibilities exist for encouraging the kind of competition that will contribute toward a stable and expanding level of employment, but those already mentioned are illustrative of the more important types of action worth considering.

Stimulation of Private Investment

Much can be done by Government directly to promote private employment by stimulating private investment. The major fields of private investment are (1) business-enterprise facilities and (2) residential housing.

Business-enterprise Facilities

One of the most important single inducements to private investment is the maintenance of a low interest rate. The lower the rate of interest in relation to expected profits, the greater the incentive for businessmen to borrow funds to finance construction of plant, equipment, and other facilities in all kinds of industries, including manufacturing, service, trade, and transportation. And the farmer with a mortgage on his farm is especially aided by low interest rates; provided, of course, he does not increase his debt in the same proportion as his interest rate is lowered—either by bidding up land values or by other means. The less he has to pay as interest, the more he has

left with which to buy the goods and services he wants—goods and services produced largely by nonfarm labor.

If, besides the maintenance of low interest rates, direct Government loans continue to be made available, private enterprise will be encouraged to enter fields otherwise considered too hazardous. The risks themselves tend to disappear when such lending is used as an integral part of a comprehensive program for promoting a higher general level of economic activity.

In the past, control of production and pricing policies of individual firms by their bankers and financiers in order to prevent competition with other companies financed by the same banking firm, has often been described as one important way in which competition has been stifled. It is probable, however, that this type of practice has been on the wane in recent years, partly because of the increasing tendency of corporations to finance their expansion internally through undistributed earnings, and partly because of the availability of Government credit through such agencies as the Reconstruction Finance Corporation. The creation in peacetime of a Government-supported Small Business Finance Corporation, and the vigorous use of RFC funds for the expansion of peacetime industrial facilities—especially by smaller concerns—would both be steps in the direction of preventing restrictive practices and of stimulating an expansion of investment and employment.

Government-owned plants and facilities can be turned over to private operators under appropriate management agreements. By equity financing, that is by the purchase of nonvoting stock in business enterprises, and thereby assuming some of the risks, the Government could give encouragement to the further use of private capital.

Residential Housing

One of the largest single components of private investment is that in residential housing. In 1929, for example, total business expenditures for housing represented more than 10 percent of the total expenditures for private construction, machinery, and equipment. This is a field in which there is still a great need, in rural as well as in urban areas. Ways and means for stimulating a sustained flow of investment into housing fall into two broad categories: (1) Those which tend to lower housing costs and (2) those which provide adequate financing.

Publicly supported research to find more efficient methods of construction, improved materials, designs better adapted to prefabrication or other mass-production methods, and plans for the better organizing and laying-out of jobs in erecting houses, is worthy of Government attention as one means for lowering the costs. Moreover, the Federal Government could do much in the way of collecting and publishing information respecting the volume of residential construction, population shifts, numbers of families in different groups, and similar data that would be of value to private builders in projecting the probable market demand for various types and classes of housing. A revision of building codes aimed at eliminating wasteful use of materials could be valuable in enlarging the market. County and municipal governments could well give attention to revising and extending zoning laws and regulatory controls over real

estate subdivision. Action to simplify transfer of real estate and reduce the cost of abstracting and guaranteeing titles would be helpful.

After the war, farmers will want to use a large part of their wartime savings not only to build houses but also to construct barns and other farm structures. They need more public guidance and assistance in planning the best use of these funds than is now available to them. The more buildings they are able to buy with the dollars they are able to spend, the greater will be the labor employed in the construction industry.

During the depression of the 1930's, the Federal Government took several steps to encourage private investment in housing through improvements in financing. Among these were: (1) The establishment of the Federal Home Loan Bank System, (2) the creation of the Federal Savings and Loan Associations, (3) the insurance of accounts of shareholders in savings and loan associations, and (4) the establishment of the Federal Housing Administration to insure private housing loans.

The Federal Home Loan Bank System, comprised of 12 regional banks and their member institutions—mainly local savings and loan associations—is aimed at supplying long-term mortgage credit to individual home owners. The member institutions make loans to individuals who want to buy or build a house. These local agencies can borrow from the regional banks on the security of mortgages on homes or Government securities. The banks obtain their loan funds by the sale of debentures up to five times the amount of their paid-in capital, the majority of which is now owned by the Treasury of the United States. This system is obviously a means by which the Federal Government aids in providing credit to local, private institutions engaged in home financing. The same is true of the Federal Savings and Loan Associations, which are local organizations chartered and partially capitalized by the Federal Government.

Another example of efforts to encourage private investment in housing is the work of the Federal Housing Administration. Its primary approach to the problem is by providing a system of mutual mortgage insurance. Loans for housing repair, alteration, and improvement, as well as for new house construction, are insured and guaranteed by this agency. Through March 31, 1944, the Federal Housing Administration had written insurance totaling more than 7.5 billion dollars, the predominant proportion of which was for construction or refinancing of houses ranging in size from one to four families. The possible insurance coverage on this type of loan is 80 to 90 percent of the value of the property, depending on the size of the loan. Interest rates on insurable loans are limited to 4.5 percent, and the insurance premium is one-half of 1 percent per annum on the outstanding balance of the loan.

If the potential post-war demand for housing is to be met to the greatest possible extent by private investment, it will probably be necessary for the Federal Government to continue this type of program in the future. It may even need to be enlarged and improved, if the private housing industry is to make an expanded contribution to the maintenance of full employment. Moreover, it is probable that

equity financing of properties for rent should be encouraged in the post-war years, as distinguished from placing all of the public emphasis on loan financing for ownership.[2]

Revision of the Social Security System

Another means of helping private enterprise maintain full employment is the extension and enlargement of the insurance features of the social security system. These include the joint Federal-State system of unemployment insurance[3] and the Federal system of old-age and survivors' insurance.

By aiding in maintaining larger total private expenditures for goods and services when unemployment and old age occur, such programs help support a higher level of employment than would be possible without them. Certain modifications in existing law would make the programs even more helpful in maintaining a high level of demand when unemployment threatens, or when an abnormally large number of older workers retire from work—a situation likely to arise during the transition period. To indicate what modifications might be appropriate, it is necessary to describe briefly the principal provisions of each of these two social-insurance programs.

Unemployment Insurance

With the exception of the system for railroad employees, which is a federally administered program, unemployment insurance is now provided by a joint Federal-State program, under 51 separate laws of the States, Territories, and the District of Columbia. Provisions of the laws relative to the size of firm and type of industry covered, the standards which workers must meet in order to qualify for unemployment compensation, the amount and duration of benefits, and similar factors, vary considerably from State to State. However, the general premise on which all of the State unemployment-insurance systems are built is, "that over the swing of a business cycle the contributions paid into a State's account will approximate withdrawals from the fund for benefit payments".[4]

In 1943, approximately 45 million workers were in employment covered by programs at some time during the year. The programs are financed by funds collected through pay-roll taxes and are deposited by the States in a trust fund in the Federal Treasury. The basic rate of pay-roll taxation is 3 percent, levied by the Federal Government on specified classes of employers.[5] But employers are allowed

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[2] The Housing Committee of the Twentieth Century Fund has recommended—
That, following the pattern of the New York law, insurance companies be authorized by the various states to invest up to 10 percent of their assets in the debt-free ownership of housing property; that, under a system of federal insurance, guaranteeing an average net return over a ten-year period of an amount not to exceed the current long-term government bond rate as applied to the total investment, the permissive investment be increased to 15 percent, that similar insurance be made available to federally chartered and regular trustee institutions organized for investment in housing property.—American Housing, p. 333, The Twentieth Century Fund, 1944.

[3] The federally-administered railroad-retirement and railroad-unemployment insurance plans, and Federal, State, and municipal systems covering certain groups of public employees are also social-insurance programs.

[4] *8th Annual Report*, Social Security Board, 1943, p. 27.

[5] In most States it is only the employers of eight or more workers who are subject to the tax and hence whose employees are covered by the program.

credits against this basic rate up to a maximum of 2.7 percent for tax payments made to the State funds.[6]

The provisions of the present laws governing benefit payments are far from uniform. In general, however, eligible workers may receive unemployment compensation, in most States, after they have been involuntarily unemployed for 2 to 3 weeks, at a rate which approximates one-half of their weekly earnings when they last worked in insured employment. Such benefits are rarely paid for longer than 16 weeks, unless the worker has an unusually good record of past continuous work. To qualify for unemployment compensation a worker must register for further work at an Employment Service office. Whenever the Employment Service can direct the unemployed worker to a job available to him which involves the general type of work for which he is qualified, his eligibility for unemployment compensation ceases.

This type of unemployment insurance is of most importance in maintaining the incomes of workers who are thrown out of employment for short periods when the economy is operating at relatively high levels of employment. It can be highly instrumental in preventing minor recessions in production from becoming major depressions. Moreover, through the influence of benefit payments in keeping up consumption, it has the effect of slowing up a downturn in business activity, thus affording an opportunity for other corrective action to be taken.

Obviously, the unemployment insurance program could make an even greater contribution to the maintenance of full employment if the present system were modified: (1) To cover more workers, (2) to start benefit payments earlier after involuntary loss of work, (3) to provide larger payments, and (4) to continue, if necessary, benefit payments for a longer period.

Old-Age and Survivors' Insurance

Approximately 48 million workers were covered by the old-age and survivors' insurance program at some time during the calendar year 1943. In general, the program is financed by taxes on both employer and employee covering the first $3,000 of wages received in a year by an individual from any one employer for employment to which the program applies.[7] These pay-roll taxes, which at present are 1 percent of taxable wages paid by employees and an equal amount paid by employers, are placed in the old-age and survivors' insurance trust fund, from which benefit payments are made.[8] Such payments are generally kept at a level well below prevailing wages. They may be made not only to the insured worker who retires or is otherwise unem-

[6] Many of the State laws provide for lower rates of taxation on firms that have past records of relatively little unemployment. Consequently, the effective rate of employer payment into the State funds, for the country as a whole, averaged 2.0 percent in 1943 instead of the 2.7 percent set as a standard.

[7] Obviously, the total earnings of covered workers are not taxed. In 1943, the total taxable wages amounted to approximately 62.4 billion dollars, which was about 6.5 billion dollars less than the total wages of covered employees. The total wages of these employees represented approximately 68 percent of the total expenditure for wages and salaries in the United States.

[8] The Social Security Act of 1935 fixed the tax rates at 1 percent of taxable wages for both employers and employees for the calendar years 1937, 1938, and 1939, and provided that these rates should rise to 1½ percent on January 1, 1940, to 2 percent on January 1, 1943, to 2½ percent on January 1, 1946, and to 3 percent on January 1, 1949. But this original schedule of rates has since been modified by several acts of Congress, with the result that the original 1 percent rates have never been raised, and are now extended through 1945.

ployed after he reaches the age of 65, but also to his aged wife (or widow if he is deceased), to dependent children, and to parents of deceased workers.[9]

If the originally scheduled increases in tax rates beyond 1945 were put into effect, annual tax payments into the reserve fund would probably be substantially higher than benefit payments for many years in the future. Indeed, probably not until 1975-80 would benefit payments exceed the tax income of the fund for any substantial length of time. Benefit payments may reach levels of 300 to 450 million dollars per year by 1955, according to projections by the Board of Trustees of the Fund.[10] Nevertheless, the continuous accumulation of funds in the reserve would have a depressing influence on *private* expenditures, because funds which would otherwise largely be spent by workers and consumers would be transferred from their hands to the reserve account. This would not necessarily be true, however, of *total* expenditures. As the reserve fund accumulates it would be invested in Government bonds. If the proceeds from the sale of these bonds to the fund were spent for goods and services, and if Government expenditures were larger than they would otherwise be, by an amount equal to the accumulating reserve, there would be no depressing effect of the old-age and survivors' insurance program on total expenditures. The financing of the program, however, through a continuous accumulation of large reserves—that is, by currently collecting more than is paid out for the next 30 to 35 years—is not a mechanism conducive to an expansion of private consumption.

Nevertheless, if this financing mechanism is continued, the Social Security Program as a whole will still have a tendency to stabilize private expenditures, because benefit payments would be heaviest during periods of unemployment, and tax collections would be heaviest in periods of full employment. The effects of benefit payments in keeping the expenditures of the beneficiaries up could be quite instrumental in retarding the tendency of a small amount of unemployment to "snowball" into a major depression. Moreover, the program makes it possible for many workers to retire at an earlier age than would otherwise be done, thus reducing the number of active job seekers. Both results may be important contributions to the post-war maintenance of full employment.

The program could be improved in its power to encourage private consumption expenditures during periods when unemployment begins to develop by amending it: (1) So that annual payments out of the fund are approximately equal to payments into the fund, thus preventing the further accumulation of reserves, (2) to provide a substantial proportion of the payments into the fund from the general revenues of the Treasury, which are derived from sources other than regressive pay-roll or excise taxes, and (3) by extending the pro-

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[9] The amount of benefit payment is related to the previous earnings of the individual in covered employment, and is determined in part by the number and type of his dependents. For instance, the average primary benefit paid to a retired worker over 65 years of age was $23.23 per month in June 1943. In addition, payments to wives aged 65 or over brought the family income from the old-age and survivors' insurance program to $36.62 a month, and payments to children made this total about $48. The primary benefit payable to an eligible worker is 40 percent of the first $50 of his monthly average wage in covered employment, plus 10 percent of his wage above the $50 level, with a small additional allowance for length of time in insured employment.

[10] For a full explanation of the methods used in making these estimates see: *Fourth Annual Report* of the Board of Trustees of the Federal Old-Age and Survivors' Insurance Trust Fund. House Document No. 620, 78th Congress, 2d Session.

gram so that more people are covered by old-age and survivors' insurance. Steps in this general direction could be made by increasing the amount of benefit payments while retaining the present 1-percent tax rates on pay rolls and making direct appropriations from the Treasury to the fund if it begins seriously to decline.

Important groups that could be covered by old-age and survivors' insurance and which are not now included in the program are: domestic and agricultural wage workers, the self-employed—such as farmers and small shopkeepers—and certain classes of "white-collar" workers. These groups probably represent from one-fourth to one-third of the total working force.

Improvement in the Timing and Coordination of Public Expenditures

Total demand for goods and services in this country has resulted in part from public spending, in peacetime as well as in wartime (table 2). Governments have long spent money to buy materials and supplies, and to employ directly many thousands of workers to build and maintain schools and roads, as well as to provide other types of public buildings, services and facilities. Government action of this kind is nothing new; it has been an integrated part of the economic activities of all types of government in this country since the earliest days. Townships, school districts, counties, cities, States, and the Federal Government have always employed workers. But only in recent years has the "timing" of this type of employment come to be recognized as a possible means for stabilizing total employment.

Improved timing of public expenditures to counterbalance declining private employment and thus maintain market outlets for the products of both farm and nonfarm labor does not require any increase in direct Government participation in the production plans and policies of private firms. For instance, if Government steps in when private employment begins to decline and contracts with private firms for public improvements, it does not participate in the management or direction of the lumberyards, cement factories, steel mills, or brickmaking firms which supply the materials for such improvements; nor does it participate in the management of firms that supply materials when it hires labor directly for public construction jobs, jobs commonly recognized as lying outside the field of private enterprise.

In the past, State and local governments have usually made their heaviest expenditures for roads, schools, health facilities, public buildings, and similar improvements during periods when private investment was high and unemployment was low; they have usually made their smallest expenditures for these purposes when private investment was low and unemployment was high. Thus, the timing was just the reverse of what it should have been to have served most effectively as a stabilizer of employment. Some branch of the Federal Government could well be given responsibility in the future for working with States and local units of Government to develop a pattern of public spending better integrated with the ups and downs of private employment and private spending.

In part, the task could be accomplished through cooperative consultation and planning of public expenditures by the different units

of government. This approach would rely on voluntary cooperation, induced chiefly through educational and planning techniques. Several States have already accumulated substantial reserves for carrying out post-war public spending programs or have reduced their bonded debts during the war. In other States, changes in laws or constitutions would be necessary to permit the accumulation of reserves from taxes, or for later spending more than current tax collections. If the States could be brought into agreement to relate the volume of their spending to some index of employment, so that their expenditures would increase as employment declines and decrease as employment rises, a start in the proper direction would have been made.

A second method of bringing about coordination in Government spending might be by the Federal Government organizing an improved market for State, county, and municipal securities—such as has been done in other countries. Many units of State and local government have found it impossible, or extremely expensive, to market bonds for public-investment programs, except during periods of general economic prosperity.[11]

A third method might be to revise the present system of Federal aids to State and local governmental units to the end that such aids might be allocated with much greater attention than at present to: (1) The timing of total public expenditures in relation to the amount of unemployment and (2) the needs of the States. If total public expenditures are to serve as a balancing device in the economy, increasing when private expenditures decline and decreasing as private spending expands, many of the Federal aids to States may have to be based upon different principles from those now prevailing. The size of those aids which result primarily in the inauguration of new public investment, as distinguished from the continuance of existing services, might well be directly related to an index of production or employment, so that they would vary inversely with the general level of economic activity. In adopting such a principle, attention would also have to be given to variations in need among the States. If such grants for public expenditures are to be effective in checking declining employment promptly, they must be planned and blueprinted in advance. This may be particularly important in maintaining employment through the reconversion period.

A comprehensive approach to the problem of timing and coordinating public expenditures would be concerned, of course, with rev-

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[11] One suggestion for improving this situation is that an Inter-Governmental Loan Corporation be established:

> The corporation should be authorized to purchase the securities of state and local governments at a rate of interest which would reflect the cost of borrowing to the federal government plus a carrying charge (including in the computation of the charge, probable losses through defaults). This arrangement would put a ceiling on the cost of borrowing to the state and local governments. Such a ceiling would be important in emergency periods when the private capital market is restricted . . . The Inter-Governmental Loan Corporation cannot and should not answer the underlying economic and governmental needs of declining and unstable communities. A long-run solution for their ills must come from different sources, possibly in the form of consolidation, programs of rehabilitation, industrialization, and temporary grants for specific purposes. . . . The Inter-Governmental Loan Corporation should make use of the revolving-fund principle. Typically, securities should not be held for prolonged periods. They should be sold to the market as soon as the market can absorb them, thus making room for the purchase of other issues, particularly in an ensuing depression. This procedure would provide a greater incentive for the Corporation to impose standards of fiscal soundness upon local units and would help to check excessively optimistic local programs, since the bonds would eventually have to meet the tests of the market.—State and Local Finance in the National Economy, by Alvin H. Hansen and Harvey S. Perloff, pp. 204, 205.

enues as well as expenditures. If, for instance, the Federal Government were to reduce sales taxes in order to increase consumption expenditures, it would be important that the effects of such reduction not be impaired by the States increasing their sales taxes.

Many other examples of the need for close coordination of fiscal policies could be given, but these are sufficient to indicate an important field in which several major steps could be taken at an early date if public expenditures are to serve most effectively in maintaining employment in the post-war years. Now is the time to do the advance planning. The job should not be postponed until depression has struck.

In planning for the immediate post-war period, a more or less obvious fact must be recognized; namely, that the demand for public facilities and services which has accumulated because of wartime restrictions will be almost as urgent, if not as great in volume, as that for other goods. School buildings, roads, and other public properties may be in such need of repair, replacement, and expansion that the public will demand that these things be done, even though the level of employment would remain high if they were not done—or even if public expenditures for these things would be in heavy competition with private expenditures when the labor force is fully employed. This puts a responsibility upon all governments of fully explaining to their citizens the problems involved and of indicating publicly how governmental expenditures can contribute to the pattern of "boom and bust" or to the maintenance of stable employment. The choice is one which should be made with a full and widespread knowledge of the consequences.

APPROPRIATE TYPES OF PUBLIC EXPENDITURES

Public action to help private enterprise maintain full employment has been discussed thus far under six headings: (1) Maintenance of farm purchasing power, (2) revision of tax laws, (3) encouragement of competition, (4) stimulation of private investment, (5) revision of the social security system, and (6) improvement in the timing and coordination of public expenditures. Action on some aspects of all these possibilities is now under way, and some of it has been in process for a long time. None of these suggestions call into use new and untried types of Government activity; and Federal, State, and local governments all have significant roles to play. But the practical possibility remains that the rate of acceleration of actions on these fronts might not be sufficient to avoid the recurrence of mass unemployment in the future. Therefore, the question arises: How and to what extent would it be wise to expand Government expenditures as a means of maintaining full employment?

If, despite all possible action of the types thus far suggested, mass unemployment should arise, it would still be possible to increase governmental expenditures sufficiently to create a full-employment economy. Government expenditures stimulate individual consumption indirectly by investment in such public improvements as schools and roads, and directly by such methods as free school lunches and food allotments to low-income groups. The impact of accumulated deferred demand for public expenditures will fall most heavily upon the first of these two categories in the years immediately following

the war. Moreover, it will be greatest for the more conventional types of public improvements. To plan for a volume of public expenditures that would be sufficient to meet any possible future need for employment, it may be necessary to provide especially for more of the deferable types of investment expenditures, and for still more of the direct-consumption types.

The possible volume of expenditures for useful and needed public activities that lie outside the field of private enterprise is very large. Public facilities such as hospitals, clinics, parks, and community centers are rarely operated for profit. A great expansion of Government activity in these fields could be made without competing with private enterprise. The soils, forests, mines, and rivers of this country represent great wealth-producing assets, the maintenance and improvement of which would contribute to present and future national production. Some of these natural resources cannot be increased or reproduced except over such long periods that private investment in them is unprofitable, despite the fact that future generations will be dependent upon them. If relatively heavy Government expenditures should be necessary after the war to maintain full employment, emphasis can properly be given to the construction of adequate hospital and other public facilities throughout the country and to the maintenance and improvement of natural resources. No such expenditures need to be "made work" if they are carefully planned in advance.

The development of integrated programs of flood control, soil conservation, reforestation, navigation improvement, and power development, such as the work of the Tennessee Valley Authority, creates a demand for labor of many kinds and affords market outlets for numerous kinds of construction materials and supplies. Resource conservation and development programs of this general nature, especially where heavy construction such as the building of large dams or hydroelectric works is involved, result in public expenditures similar to private investments of business firms in erecting new factories or substantially expanding a large public-utility system. These expenditures should occur mostly when capital and labor are not needed for the production of consumer goods or when the employment of labor would least compete with private employment.

Government payments to individual farmers to encourage them to use such practices as terracing, drainage, winter cover-crop production, seeding pastures, and planting wood lots can be made in such manner that they are spent by their recipients largely for consumption goods and services or for the purchase of machinery, equipment, and similar semidurable goods.

The type of program that will contribute most to the maintenance of employment will depend in part on the particular segment of the private economy which appears to be sagging most from a lack of private expenditures.

The provision of publicly financed housing for low-income families who cannot afford adequate houses at the price or rent which private builders must receive in order to make a profit, represents a large field in which proper Government spending may be able to contribute to the stabilization of an important industry which is customarily characterized by wide fluctuations in employment and output. Ways and means of encouraging an expansion in private

housing expenditures have been discussed. How successful the private housing industry will be in lowering costs so that low-income families can finance adequate houses without special public assistance remains to be seen. If, however, relatively great strides are not made in this direction at a much more rapid rate than in the pre-war years, it is very likely that many thousands of families, even under conditions of full employment, will be inadequately housed. Public expenditures to provide better homes for these low-income families would, therefore, not only be a stimulus to employment, but would also be filling a need for improved housing that is especially great among both farmers and urban workers.

The accepted method for meeting this need in urban areas is for public agencies to construct and own the houses and rent them to low-income families at a rental which approximates 20 percent of the family's income. Legislative authority for the Federal Government to engage in this kind of public-housing program is now provided by the United States Housing Act. Moreover, considerable experience has already been gained by local housing authorities in building, managing, and operating residential properties for low-income, urban workers. The general method is one which is adapted to State and municipal financing, as well as to Federal financing. Like many of the other public-expenditure programs, those for housing can be partially self-liquidating. Appropriate methods should be developed for an adequate extension of public housing into rural communities.

In addition to these possibilities for increasing the investment type of expenditures, there is a wide variety of possibilities for increasing the consumption type of expenditures. These may be made for the purpose of increasing the consumption of specific commodities or they may be generalized for the purpose of increasing the consumption of all commodities.

A program of the first type designed to increase purchasing power with reference to specific items would also increase aggregate consumption, insofar as consumer expenditures for other items were not decreased. A typical program of this kind was the Food Stamp Plan, which directly increased consumer expenditures for food. Of course, such a program could be broadened to include items other than food, such as housing, education, or clothing. The administration of programs of this type is somewhat complex because the increases in consumer expenditures must be channeled against particular types of goods. But one important advantage lies in the fact that consumer purchases may be directed along those lines for which increased consumption is particularly needed.[12] Moreover, objective minimum standards, such as exist for nutrition, housing, and education, may be used as "floors" below which the consumption of these particular items is not permitted to fall.

One of the simplest methods available for putting into effect a program of the second type aimed at modifying the consumption of all commodities would be to raise or lower the amount of income tax withheld. Other generalized methods could be employed, but under any of them individuals would be free to use their increased purchasing power according to their choice. Aggregate consumption would

[12] This objective is emphasized by Sir William Beveridge in his book, FULL EMPLOYMENT IN A FREE SOCIETY. 429 pp., illus. 1944. (See pp. 157-166.)

be increased, but individual consumers would be left free to spend their increased purchasing power for the products of their choice. The allocation of private income would, as is the case now, largely direct or guide the production activities of the economy.

Whether or not action is taken in the future to expand greatly any or all of these types of expenditures in order *to avoid* mass unemployment, it is well to remember what the Nation had to do in the last depression *after* millions of workers had lost their jobs. Billions of dollars had to be spent for relief payments, payments to farmers, subsidies to business, public works, CCC camps, and a long list of other activities, the principal effect of which was to raise consumer purchasing power for the goods and products of private industry. It is certain that the depression would have been much less severe and private employment would have remained higher if Government expenditures had been planned and started much earlier. The fundamental fact that cannot be escaped is that mass purchasing power must be maintained if production and employment are to be maintained.

If deflation and unemployment should threaten in peacetime, would the Government spend too little or tax too much to provide jobs not otherwise available, or would it spend and tax the right amount? Whether it spends and taxes enough or too little will depend upon whether the people of the United States value full employment highly enough to require the Federal Government to adopt the requisite monetary and fiscal policies. It can be done.

MANAGEMENT OF THE FEDERAL DEBT

One of the important problems of Federal fiscal policy after the war will be: How to manage the national debt? National income and employment *must be high* if the Government is to be able to raise enough money through taxes to pay the interest on the debt, make payments on the principal or refund bond issues as they come due, and at the same time provide other necessary and desirable governmental services.

In considering the possibilities for improving the timing and coordination of public expenditures, it was assumed that it might not be possible to balance the budget of Federal, State, and local Governments each year, but that over a period of years it would be possible to balance budgets by retiring debt with budget surpluses in periods of full employment and increasing the debt because of budget deficits when private income is low and Government expenditures are heavy. To the extent that municipal, State, and Federal budget policy could be more closely coordinated than at present to plan in advance for such alternate borrowing and debt-retiring periods, the burden of public spending programs would not fall so heavily on the Federal Government as was the case in the 1930's. But if future developments are such that heavy public spending over a period of years becomes necessary, it is certain that the Federal Government would have to assume major responsibility for obtaining the necessary funds.

If the Federal Government follows the policy of retiring debt only as an anti-inflationary measure during periods of prosperity, and of expanding it to counteract unemployment, there may be a gradual

decline in the debt over a long period but there is no positive assurance that this will be true. Indeed, despite all other possible aids from Government, the ability of private enterprise to maintain continuous full employment for long periods could conceivably be such that necessary Government spending programs would result in a gradual expansion of the Federal debt. Appropriate measures are required for dealing with this contingency. The very fact that Government spending programs to supplement private expenditures could result in expanding the Federal debt in the post-war years may appear to some as evidence that full employment is not a desirable national goal or that some method other than public spending should be followed to achieve it.

Under certain conditions a high Federal debt could play havoc with the ordinary ways of living and carrying on business activities. But it can be controlled and managed. Moreover, a debt much larger than that which the Federal Government will have at the end of this war can be managed successfully if a high level of production and employment can be maintained or expanded.

If the war ends within the next 2 years, the Federal debt may be about 300 billion dollars. Most of this will have been accumulated during the war and the money will have been spent for the purchase of military supplies and equipment. The Treasury will have paid for the battleships, tanks, planes, guns, shells, and similar material used in the war. The business firms that supply this war equipment receive their pay for it as it is delivered. The laborers who make it receive their wages currently. Thus the producers of the war equipment and supplies receive their money from the Government as they turn out the products. But the question remains, How will the final dollar cost be divided up among the people of the country? This is the problem of who pays the taxes to pay the interest on the bonds, and who receives the interest.

Even though the Treasury will have paid the producers of war materials, the members of the armed services, and the thousands of civilians who are directly participating in the war, it will have borrowed a part of the money with which it made these payments. It borrowed this money from individuals, from business firms, and particularly from banks, within this country. It must meet the interest payments on these loans when they come due. These payments will be made from taxes which, in turn, will be collected partly from the very same people and business firms that own the bonds and partly from others. Hence, taxing to pay the interest on the debt results in shifting funds from one pocket to another, or from one group of citizens to another. Such taxation is not a drain on everyone in the country. Indeed, bond interest paid from Federal taxes is a source of income to thousands of banks and business firms and millions of individuals. But there are some real problems in designing a tax system which will equitably shift the necessary funds from one group to another in a manner that will be conducive to the maintenance of full employment.

Will a high, and perhaps expanding, Federal debt lead to inflation? Even if the tax problem of shifting funds from some people to others in order to pay interest on the debt is entirely manageable, will there not still be a danger of the debt bringing about inflation?

The greatest danger of inflation from an expanding debt is during and immediately following a war period when the Government is making heavy expenditures—thus putting money into the hands of people in this country—for war materials which do not enter the regular markets but which are taken by the Government for war purposes. The people who make these materials receive the money for them, but there is a shortage of civilian goods for which they can spend this money. Thus, there is a tendency for the prices of civilian goods to rise. This has necessitated price control, rationing, heavy taxation, bond drives, and similar anti-inflationary measures. The continued danger of inflation will be important until the economy has been completely converted back to peacetime production, or until enough civilian goods have been produced to match the demand.

Once the economy is established on a peacetime basis, however, this situation will be different. If it becomes necessary for governments to engage in heavy spending programs and to increase greatly their revenues by borrowing, it will be because private expenditures have declined and show prospects of falling still lower. The Government could then borrow and spend money for materials and labor, thus offsetting, in whole or in part, the declines in private expenditures. If it should continue to borrow and spend in substantial amounts *after full employment has been reached*, the combined effects of the rising private and public spending could lead to inflation. Also, if the Government should continue to spend in excess of its revenues for an indefinite period without making any of the fundamental adjustments in the economy, such as those already discussed, and thereby create public distrust of the currency, inflation could occur without full employment. Such bungling on the part of the Government could happen, but it is not necessary. The same effects could occur regardless of whether the total outstanding debt was high or low. A sound fiscal policy requires governments to curtail their expenditures and retire debt through taxation during periods of full employment and when prices have a tendency to rise—not to increase their expenditures and expand the debt.

Another type of action which could cause a high public debt to result in inflation would be a sudden paying off of that debt by issuing paper money. This would put a large volume of cash in the hands of banks, other business firms, and individuals, many of whom would want to put it to work by buying something. Prices would probably skyrocket and the whole economy would be off to an inflationary orgy. Other situations could be imagined in which a public debt could be so poorly managed that inflation would result. But none of these things are either necessary or probable so long as there is any semblance of real responsibility on the part of the Government.

What will happen if the Federal debt is never paid off? Will the bonds which are already outstanding become worthless if more and more are issued? Can the Government go on and on increasing the Federal debt without ruining its credit? Two conditions must surely be met if the Government's credit is to be maintained. First, the interest on all outstanding Government securities must be paid promptly

when it is due. Second, the owners of these securities must be able to get the cash for them when the due date arrives.[13]

The present rate of interest which the Treasury is paying on borrowed funds averages a little less than 2 percent a year. With a debt of 300 billion dollars, this means that about 6 billion dollars of taxes must be used to pay interest on the debt. This is about one-third of what the personal-income tax yielded to the Treasury in the fiscal year ending June 30, 1944. It would represent about 4 percent of the national income at full-employment levels in 1950, if prices remain about where they were in 1943.

Although the average rate of interest on the entire debt is about 2 percent, the rate on short-term loans held by banks is much lower. This suggests the possibility of lowering the average rate still further by increasing the proportion of the debt held by banks as short-term loans.

But meeting the interest on outstanding securities of the Government is not the same thing as redeeming the securities when they come due. Can this be done? So long as the interest on Government debt is paid when it is due, and investors think that it will continue to be paid in the future, there will be thousands of individuals, banks, and other business firms anxious to invest their money in Government securities. At the very same time that some people want to cash in their bonds, others will want to invest in them. It is not necessary, therefore, for the Government to reduce its total indebtedness every time an issue of bonds must be redeemed. It can issue new bonds to pay off old ones, so long as it is following policies that are calculated to inspire confidence in the future. A workable full-employment policy will inspire more confidence than one which would tolerate a depression.

A strong demand for Government securities at relatively low interest rates continues to exist. Indeed, the average annual interest rate on the Federal debt for the fiscal year ended June 30, 1944, was lower than for any fiscal year during the last decade.[14] This is not to suggest that a very large debt, as such, is a good thing. It is only to point out that the seriousness of the problem of managing the debt is to be judged not by its absolute size but by its relation to national production, income and employment—as well as by the kind of taxes levied to pay interest to bondholders.

Management of the Federal debt presents no insuperable obstacles as long as the carrying charges or interest on it bears a reasonable relation to the total tax base. A policy maintaining low interest rates is not only a real incentive to private investment but is also a significant force in lowering the carrying charges on the Federal debt. A debt no larger than that which the Federal Government is likely to have at the close of the war could be carried indefinitely at present rates of interest, if high levels of production and employment are maintained. The debt can always expand safely as long as the expansion in its service charges is accompanied by a proportionate (or greater than proportionate) expansion of the Nation's production. The debt should be reduced, but not when payment to reduce

[13] In the case of securities such as the Series E Savings Bonds, the owner has the option of cashing them in at any time just as he can write a check on his deposit account whenever he has money in the bank. This means that the Treasury must stand ready to pay these bonds off just as rapidly as their owners demand the cash.

[14] Bulletin of the Treasury Department, October 1944, p. 27.

it would lessen employment or prevent an increase in production. To levy taxes during periods of unemployment for the purpose of paying off the debt is to encourage deflation and more unemployment.

All of these considerations point to the necessity of maintaining low interest rates and a high level of national income so as to preclude the possibility of the debt becoming a serious problem. A general policy of retiring the debt only when employment is high and prices show a tendency to rise, and of borrowing to finance Government expenditures when unemployment begins to appear, may not result in any increase in the debt over a long period. But even if it does, the real significance of such an increase would depend upon what happens to national income, production, and employment at the same time. One thing is certain: If the national income is permitted to fall to half or less than half its present level, the debt will be a vastly greater problem than a much larger debt would be if national income could be maintained at a full-employment level. The demonstrated productive capacity of this country is clearly great enough to support the present debt of the Federal Government, together with any reasonable expansion of that debt in the interest of keeping the economy producing at capacity.

SUMMARY

Farmers, workers, businessmen,—all elements of the population—have vital stakes in the maintenance of a full-employment economy after the war. Agricultural adjustment problems will be manageable if jobs are available at good wages for the workers who will be seeking and needing them, but these problems will become increasingly difficult as less favorable employment conditions are permitted to develop and continue.

During the period of transition from a wartime to a peacetime economy, the way in which the reconversion problems are handled will greatly affect the prospects for full employment later. The goal during the transition should be a minimum of delay between the cancellation of war contracts and the manufacture of civilian goods.

If, in the years beyond the transition, full employment is to be achieved for an increasing labor force under an improving technology, the buying power of that labor force must expand with production. Farm purchasing power must be kept at high levels. Government domestic policies for the maintenance of full employment should be directed first and last to create the kind of economic relations that will enable private enterprise to spend sufficiently to maintain full employment. To the extent that efforts in this direction fail, Government spending should be used as a supplement to private spending.

Government can aid private enterprise to maintain full employment in many ways. One of these is to revise the tax system by removing any unnecessary impediments to consumption and investment. The more obvious type of appropriate action in this field would include the elimination of the excess-profits tax. When unemployment threatens, the reduction of sales taxes and other taxes on consumption would tend to support purchasing power and maintain employment. A tax system that would rely mainly on the individual income tax and estate taxes would at the same time provide the least impediment to private employment.

Many possibilities exist for expanding private production and trade by encouraging competition. These include a revision of the patent laws, assistance to small business, continued enforcement of the Sherman Anti-Trust Act, progressive reduction of special privileges that flow from excessive tariff rates, encouragement of consumer cooperatives, and many others.

By extending low-cost Government credit to investors, private enterprise can be encouraged to enter fields that are otherwise considered too hazardous. Low interest rates can also be helpful in supporting farm purchasing power. Through a revision of the social security system to include farmers and others now excluded or inadequately covered, the program could be improved in its power to encourage private consumption expenditures during periods of unemployment. Improved timing and coordination of public expenditures (Federal, State, and local) could make a great contribution toward counteracting the effects of any possible future decline in private expenditures.

All of these things require advance planning. Their maximum effectiveness cannot be had if they are put into operation only after the depths of a depression are reached. Whether all of them together would maintain full employment depends upon the thoroughness with which they are done. In timing and coordinating public expenditures, the practical problem will be one of acting quickly enough and on a sufficiently broad front. The problem of managing the Federal debt is not insuperable if handled properly. This problem further underlines the importance of maintaining low interest rates.

Agriculture is ready, willing, and able to make its contribution to a full-employment economy, in the form of full production. It requires such an economy to provide job opportunities for some of its sons and daughters who are not needed to maintain the farm population. Full production in agriculture for a people fully employed means high standards for food consumption, health, and nutrition, for the Nation generally.

But if agriculture is to make its greatest contribution to the maintenance of full employment and if farm people are to be assured rising levels of living, certain specific lines of action will have to be taken on the agricultural front—action which, in turn, will vary in nature and extent with the level of employment attained. Possible types of such action form the subject of another discussion, but they should include at least measures for encouraging those shifts in the production of crops and livestock which will be required if agriculture is to meet domestic and foreign needs with maximum efficiency. Measures for maintaining agricultural prices and incomes will be required. At the same time, action should be taken to expand consumption of agricultural products by low-income groups. Soil conservation, reforestation, and range-management activities should be expanded. To encourage and strengthen the family-size farm, working conditions of farm labor should be improved, and current rehabilitation and tenant-purchase programs should be expanded.

If farm people are to enjoy the maximum benefits of a full-employment economy, special attention will need to be given to programs for providing essential services and facilities for farm people on a par with those enjoyed by urban people. These include such things as schools, roads, electricity, housing, and hospitals. The goal of full

employment is not employment for employment's sake, but a higher level of living—a goal to which farmers not only might contribute, but one in which they should also participate.

* * *

To this point, nothing has been said about "another way out"—another way to help achieve full employment after the war. It has been suggested that this country could help maintain a high level of employment and income by lending large sums of money abroad and thus enabling foreigners to purchase a part of the expanding product of its farms and factories. Under the right kind of international collaboration to raise the level of employment throughout the world, the prospects for maintaining full employment in the United States without the necessity of resorting to heavy Government spending would indeed be brighter, though some of the domestic measures discussed here would still be needed. The problem of how to achieve the right kind of collaboration is another story. It involves the basic issues of imperialism and cooperation—of war and peace.

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